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Senior Vice President, General Counsel

August 19, 2004

Adrienne Hurt, Esq.
Associate Director for Regulations
Division of Consumer and Community Affairs
Board of Governors of the Federal Reserve System
20th & C Streets, NW
Washington, DC 20551

Re: PIN Debit Fee Disclosures

Dear Ms. Hurt:

This letter responds to your request at our recent meeting for a more detailed written statement of the National Retail Federation's recommendations regarding certain debit card issues. Although the request for comment focused most specifically on POS disclosures of on-line PIN debit card fees, to meaningfully advise consumers as to the effect of these fees it is important that the context in which the fees are imposed be disclosed.

We believe that the primary reason banks charge consumers for using their on-line PIN debit cards at the point of sale is to steer them to instead use off-line signature debit cards, which are more prone to mistakes and fraud, but more profitable to the banks. If banks are successful, all consumers, including the less well-off who do not use these cards, will bear the higher hidden costs for signature debit in the prices they pay for groceries and other retail purchases.

The banks think that consumers will not notice these high costs because they are not charged directly. Instead, banks charge merchants a continually increasing "interchange fee" when consumers use signature debit cards; a fee the bankcard associations effectively prohibit merchants from disclosing.

We believe it is improper for banks to charge any "interchange fees" for debit card transactions. Debit cards are electronic checks. Banks are not advancing money for debit card sales; they are simply giving depositors access to their own deposited funds in a manner that is less expensive for banks than handling paper checks.

Ever since its establishment, the Federal Reserve System has recognized the efficiency of clearing checks at par, and, with Congress, the Federal Reserve has eliminated check exchange discounts among banks. Yet, card-issuing banks today are discounting electronic checks by charging "interchange fees" for PIN and signature *debit* transactions. And, by charging consumers additional

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fees for on-line PIN debit transactions, banks are encouraging the use of the less efficient debit mechanism in their pursuit of higher profits.

Many merchants would like to encourage their customers who want to use electronic checks to use the ones that are less expensive and more secure, but the bankcard associations have made this impracticable. They have rules that prohibit merchants from surcharging expensive signature debit transactions. If merchants could surcharge these transactions, those customers who want to use this expensive system would pay the added costs and not pass them on as hidden costs to the customers who use more efficient payment means.

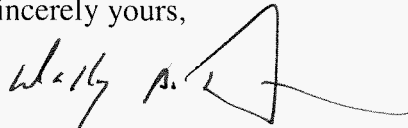
Some merchants would like to encourage their customers to use the more efficient payment methods by offering them discounts. But, again, they are thwarted by the bankcard associations, which permit discounting only if done in the least practical way. For example, we believe that MasterCard and Visa would prohibit a merchant from putting a sign at the cash register that all merchandise paid for by cash, check or PIN debit card is entitled to a discount. They would require the merchant to first mark every shelf priced item with the higher credit card and signature debit card price. Well-known department stores may have more than 100,000 individual categories of items ("SKU's") in a single location. The requirement is not practical.

While preventing merchants from steering customers to the most efficient payment systems, many banks actively seek to steer their depositors to the least efficient one by charging them extra to use PIN debit cards. While consumers who are charged should certainly understand who is charging them and that they will be charged, disclosure alone is not enough. If consumers believe that they will be charged for PIN debit but that signature debit is free (which it is not), they will act rationally and choose signature debit. Eventually, the more efficient PIN debit system will die, while signature debit pushes prices even higher.

Congress can change this illogical result by leveling the playing field. Congress can enact legislation that overrides all prohibitions against (a) surcharging customers who want to use expensive payment systems and (b) effectively offering discounts to customers who choose more efficient payment mechanisms. If Congress will level the playing field, consumers will make rational choices with economically efficient results: lower prices for everyone.

We encourage the Federal Reserve to make Congress aware of this broader context in which the issue of PIN debit disclosure is one part.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mallory B. Duncan", is written over a light gray rectangular background.

Mallory B. Duncan